Your pocket guide to
Combating Corporate ID Theft & Fraud

www.equifax.co.uk
It doesn’t take much to commit corporate ID theft and fraud.

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Copycat

Wayne Davies, Head of Commercial Product Development at business information specialist, Equifax Plc, examines the issues of corporate identity fraud and the challenges facing UK companies in tackling this risk.

Imagine this picture: a successful business suddenly discovers that it has huge debts against its name – debts it knew nothing about. Creditors are now after the company directors for payment. The company’s success is rapidly undermined – not just by financial losses, but by the loss of reputation that ensues. The result: lost profits, lost reputation and even, in some cases, liquidation.

Sounds unlikely? Unfortunately it is the reality for many UK companies, as corporate ID theft and fraud become ever more common.

Companies House recently estimated that corporate ID theft alone could be costing British business as much as £50m per annum, and the Metropolitan Police believes the true figure could be much higher, with an average loss to victims of corporate identity theft of £2m. The issue of corporate ID theft and fraud must go higher up the agenda for companies and organisations, as quickly as possible.

The more successful you are, the more likely your company will become a target for fraud

‘That will never happen to me!’, must be the thought of many CEO’s, MD’s and FD’s when they hear about another company becoming a victim.

Corporate fraud is often seen as something that happens to the company next door. The fact is the risk is much closer to home: the more successful and established the company, the more likely it will be a target for fraud. After all, there is no point cloning an unsuccessful business.

Safety in numbers

Indeed, large corporates that think they have all the precautions in place through their risk management policies should not be lulled into a false sense of
security. There are as many reports of large corporates being victims of corporate ID theft and fraud as smaller companies.

The argument could go that large corporates are more vulnerable because of the complexity of systems and the ease with which activities could be ‘hidden’. But, the reality is all companies and businesses are at risk of becoming a victim of fraud and deception, and need to implement what are often simple precautions to provide the necessary protection from what could be a very expensive threat.

**Know the risks**

There are a variety of systems available to help you protect your company from corporate fraud, but being aware of the problem is the first step to closing the net on the criminals.

There are a number of commonly used types of corporate fraud. In each case, you can take what are often simple precautions to keep fraudsters at bay. And, by knowing the risks you can go a long way to minimising them.
Company identity fraud

Company identity fraud is similar to personal identity theft. The truth is, it’s terrifyingly easy to change company documentation. Without a great deal of knowledge or effort, a fraudster can change your Registered Office, Trading Address, even the names of your company directors – all without you knowing.

Companies House has to accept documentation it receives at face value, so any checks undertaken on the cloned company will show that the applying director is an official director of the company, and the address given is the Registered Office of the company.

In addition, an ordinary credit search against the business, with any of the credit reference agencies, is likely to show a healthy credit rating. It appears there is no reason not to accept the order. This is when the fraudster’s fun begins.

Having changed your address, and using your name, the fraudster can order goods from current or new suppliers and have them delivered to the new address. Suppliers carrying out a check on the details kept at Companies House will be unaware of any criminal activity and, using your own well-established credit rating, will dispatch goods to the fake address.

Of course, you will not see these goods, the supplier will not be paid and you will both be blissfully unaware of the situation – until the supplier chases you for payment. By then, the fraudster is long gone with the goods, leaving you to deal with the consequences.

There will always be at least two victims of company identity fraud

There will always be at least two direct victims of company identity fraud: the company whose details are taken and the company that supplies the goods or services. Ultimately, everyone pays through higher product costs and insurance premiums.

The steps to help prevent company identity fraud are relatively simple, and while not 100% foolproof, go a long way to protecting your business; for example:
never throw out company documentation showing letterheads, signatures, bank account and company credit card details or invoices. Speak to Companies House about how to file your documents electronically using their Proof system. This will undoubtedly help the situation, but will not stop it completely. You should also look at investing in systems that monitor any changes in your company details held by Companies House.

Some online monitoring systems, such as Equifax Portfolio, will send you an email alert following any change to your company details held at Companies House. This allows you to take immediate action if you did not make those changes yourself and ensures you do not become an unwitting accomplice in this kind of fraud.

If a company is less than two years old, it pays to beware.
Long firm fraud

Long firm fraud is where an apparently legitimate business is set up with the purpose to defraud after a relatively long period of time. The business sets about developing a decent credit history to win your trust, which they do by placing numerous small orders and ensuring they pay promptly.

When the fraudsters are ready they will place several larger orders with most or even all of their suppliers at the same time. On receipt of the goods the criminals promptly disappear and sell them on from various trading places.

Most long firm frauds are set up with the purpose to defraud at a point in the future. This means they can disappear before they have to file any accounts at Companies House.

How to reduce the risk of long firm fraud

Stop and think before accepting a much larger order from a company that you have been dealing with for a relatively short period – even if they have been prompt payers in the past.

You should also check the trading history of the businesses you are dealing with. The key thing to look out for is any connection to dissolved companies in the past, without apparent reason. Even if the previous dissolved company links look like they could be voluntarily winding up, beware! This does not mean that no one had their fingers burnt.

Get consent to check the credit histories of the individuals in the business. If they have nothing to hide then this should not cause a problem. Most people now accept that, if you are a relatively new business, suppliers will want to check your own personal details before advancing credit.

You could also check for evidence that they reside where they say they do and find out if there is any data held on them that could be of concern. County Court Judgments and bankruptcy information, for example, provide vital clues to an individual’s trading history.
An independent reference would have made a difference.

Phoenix companies

Another type of corporate fraud is Phoenix company fraud. This is normally when a director or directors set up businesses, then wind them up owing substantial amounts of money. The directors then create another company operating in the same field, often using a similar or even the same company name. Creditors of the original company lose out when the company goes bust. The directors have no financial responsibility to settle the debts – yet they can start up again with no negative impact.

How to reduce the risk of Phoenix company fraud

To help your company avoid getting caught out by Phoenix company fraud make sure you investigate any trade references given and try to ensure that these are truly independent references.

As with long firm fraud, checks should be carried out on the directors themselves. Check their history with other companies and, with consent, check out their personal credit history. When checking previous directorships, note if previous companies have similar or same names to the one you are now dealing with. If so, ask the
customer why that company was dissolved. Remember, even if it looks like a voluntary dissolution that does not mean no one has lost out.

Often, perpetrators of Phoenix fraud leave behind lots of relatively small debts, probably resulting in no individual creditor seeing it as financially viable to take the matter further.

The directors have no financial responsibility to settle the debts – yet they can start up again with no negative impact.

**Company hi-jacking**

In cases of Company hi-jacking, long established and well-run companies are targeted by fraudsters – often organised crime syndicates – who literally ‘hi-jack’ the company by investing in the business and appointing a member of the syndicate to the company’s board of directors. Often, the original directors resign and are replaced by other syndicate members until the original company is totally in the hands of organised crime.

**How to reduce the risk of Company hi-jacking**

When you have a new order, don’t simply rely on previous credit checks – look at information other than the accounts. Check for board-level changes; if there have been a number of changes over recent months ask yourself if this customer still represents the entity that you had dealt with in the past. If there have been significant changes you may be dealing with a totally different entity than the one that has built up a great trading history with you in the past.

With the right package from your credit reference agency the cost of reviewing a company’s details is negligible, if not completely free.
‘It’s hard to rip-off a company that monitors every change I make.’

Keeping your business under lock and key

Protecting your business from corporate ID theft and fraud is just like looking after your home. You would not go out leaving doors and windows unlocked or let a stranger into your home.

By taking simple precautions, you can better protect your company from the risks of corporate ID theft and fraud. What’s more, the costs don’t need to be too great, especially when compared with the losses if your business is hit.

A cloned company often sees its losses in terms of immediate financial costs. But, a longer-term loss could be in the form of lost reputation with customers who might not want to deal with them because their confidence in the company’s security and stability is knocked. There is also the issue of insurance costs. While your insurance might provide some cover, you will never receive complete recompense. As soon as a claim is made your premium goes up.

Estimates of average individual losses for those companies that supply to a fraudster range from
£10,000 to £20,000 per transaction. Compare this to the cost of protection in the first place.

The cost of protection can be absolutely nothing for businesses that use high quality monitoring services, like Equifax Portfolio Platinum, while costs for those who are not on a Platinum type service could be as little as 50p per transaction. Depending on the information being monitored, this could be less than £10 per year!

You have the ability to select the criteria most important to you

Unfortunately, many directors fail to appreciate the value of monitoring their own company and credit information. Feedback from some Equifax customers suggested that they avoided monitoring services simply because they didn’t want to be bombarded with alerts, and concerns over the costs of each alert.

Addressing both of these issues, Equifax Portfolio Platinum has been developed to enable you to build multiple profiles that are simple to use and easy to maintain. Setting up a unique profile of your own company or group of companies is quick and easy.

And, because you have the ability to set the criteria most important to you, the alerts you receive provide a direct link to the information you chose as critical to making profitable credit decisions.

Prevention is better than cure

Whatever services you decide to use, prevention is better than cure, and in the case against corporate ID theft and fraud, ignorance really is not bliss.

Simple checking processes should be mandatory when dealing with new or existing customers and suppliers and, for the most effective protection, everyone in your company should be trained on those processes.

Remember, relatively low-cost monitoring services can provide the important back-up you and your company need to catch clever fraudsters.
12 ways you can reduce the risk of corporate ID theft and fraud affecting your company

Protecting your company from the devastating effects of corporate ID theft and fraud does not have to be costly or complicated.

The following tips, actions and procedures are highly effective, yet simple to apply

- Identify business partners and directors.
- Confirm fax and telephone numbers.
- Never accept hand written order forms or faxes.
- Confirm the trading address of the business.
- Ask for original headed company paper.
- Don’t assume information provided is correct, always double-check and follow up the references.
- Are you sure they are who they say they are?
- Check that the telephone area code is relevant to where the business claims to be trading from.
- Can they provide trade or bank references?
- Are all references truly independent?
- Check for any connections to previous companies with similar or identical names.
- Did they answer your call with a business name?

Automated alerts offer a quick, easy way to monitor important changes

Online support

Cost effective and easy-to-use online monitoring tools can help provide the answers you need to protect your company from ID theft and fraud. Automated alerts, for example, offer a quick and reliable way to monitor for important changes, while access to a comprehensive range of intuitive online reports provides the flexibility you need to assess risk levels before distributing goods or extending credit terms.
Police intelligence

ST£RLING is the Metropolitan Police’s strategy to reduce economic crime throughout the UK, and proactively target those involved in it. This scourge is now a real threat for every business in the country, with Britons losing over £40 billion last year. A staggering £28 billion was effectively stolen from London-based businesses and individuals alone. That represents many thousands in losses for every business affected.

Equifax is at the forefront of tackling this problem. Through the Financial Services Authority (FSA), a major stakeholder in ensuring financial sector regulations, we promptly make Suspicious Activity Reports (SARs) and share intelligence with the Metropolitan Police and other concerned bodies when there are sound reasons to suspect unscrupulous dealings towards your business.

Since their beginnings under the Proceeds of Crime Act (2002), SARs have had a massive effect on the activities of fraudsters. ST£RLING aims to increase SAR’s reach and punch. So do we: we’ll continue to provide our total support for the Metropolitan and other police forces to ensure they go on protecting you and your business.

www.met.police.uk/fraudalert
Equifax fraud prevention

Identify potential risk, with Equifax Optima

Providing many of the features you need to help prevent corporate ID theft & fraud, Equifax Optima allows you to review a company’s details, cross reference directors, and reveal a company’s entire group structure. You can also access a graphical display of known fraud activity, through the Metropolitan Police’s ST£RLING initiative.

Predict fraudulent activity, with Equifax Protect

Equifax Protect is a unique alert code scoring system that analyses the past performance of directors and evaluates the risk of fraudulent activity or losses from dealing with companies run by incompetent directors.

Expose risky directors, with Equifax Connections

Using sophisticated analysis, Equifax Connections helps identify directors that may have tried to hide past performance by breaking links to previous companies.

To learn how Equifax can help protect you and your company against corporate ID theft and fraud, call 0845 603 3000, option 1

“Corporate ID theft and fraud can have a devastating effect on our economy. Together, we can face the fraudster head on. Together, we can win.”

Neil Munroe
External Affairs Director